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SIPDIS

FROM THE AMBASSADOR TO THE DEPUTY SECRETARY

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SUBJECT: YOUR VISIT TO SRI LANKA NOVEMBER 7-8

Classified By: AMB. JEFFREY J. LUNSTEAD. REASON: 1.4 (B,D).

SUMMARY

1. (C) After 18 months with no movement toward resumed talks between the Government of Sri Lanka and the Liberation Tigers of Tamil Eelam (LTTE), the peace process is beginning to look less like a process and more like a protracted stalemate. This perception, which is gaining ground among the Sinhalese majority in the rural south, erodes popular support for the peace process, provides a potential platform for more radical, anti-peace elements on both sides and could spell political disaster for President Chandrika Kumaratunga's precarious coalition government. While much of the blame for the prolonged impasse lies with the LTTE, domestic politics--and Kumaratunga's preoccupation with her own political future--play a significant role as well. Your visit will offer an opportunity to highlight U.S. support for the peace process, including Norway's contribution as facilitator; to reinforce our message to the LTTE to respect the ceasefire and demonstrate flexibility on resuming negotiations; to press for continued economic reforms; and to urge greater cooperation among mainstream political forces, including the opposition United National Party. End summary.

FROM PROCESS TO DEADLOCK

2. (C) With no demonstrable progress toward resuming negotiations between the Government of Sri Lanka (GSL) and the Liberation Tigers of Tamil Eelam (LTTE) since the Tigers walked out of talks in April 2003, peace negotiations seem to have reached an impasse with no jump-start mechanism in sight. Although the Ceasefire Agreement is largely holding with no major military engagements reported since December 2001, the lack of movement toward dialogue is creating a public perception (stoked by extremist anti-peace elements on both sides) that the peace process is foundering. While much of the blame for the impasse lies with the Tigers, mainstream political forces, including President Chandrika Kumaratunga herself, share some of the responsibility as well.

TIGER INTRACTABILITY,
CONTINUED TERRORISM

3. (C) The Tigers, who broke off negotiations a year and a half ago, continue to show little eagerness to resume talks anytime soon. The greatest obstacle remains the Tigers' public demand that their controversial proposal for an interim administration for the North and East (the Interim Self-Governing Authority or "ISGA") constitute the sole basis for resumed negotiations. Staunch nationalistic opposition to the ISGA, playing to Sinhalese chauvinism and fears of a GSL "sell-out" to the LTTE, make accepting the LTTE's ultimatum politically untenable for Kumaratunga, who depends on one of the ISGA's most virulent opponents, the Janatha Vimukti Peramuna (JVP), to maintain her coalition. Even though the LTTE has indicated that it will consider GSL counter-proposals as well during the course of negotiations, the Tigers' refusal to modify their public stance leaves the President little space to maneuver.

4. (C) Besides inflexibility on the negotiating front, the LTTE continues to demonstrate ruthless disregard for the terms of the Ceasefire Agreement (CFA). Repeated acts of LTTE violence, including in Colombo, contribute to a popular perception that the CFA is unraveling--and that Norwegian facilitators and Nordic CFA monitors are doing little to constrain the Tigers. Although most of the more than 2,400 Tiger ceasefire violations are comparatively minor, non-violent infractions, the Tigers have killed 123 civilians since the ceasefire began--with more than half of those murders (64) occurring over the past four months. Tiger efforts to reassert control in the East following the defection of Eastern military commander Karuna in March account for much of the recent uptick in violence. (Another likely factor: improved LTTE intelligence, gained through the greater freedom of movement allowed under the CFA, has helped the Tigers eliminate a number of Army informants as

well.) LTTE suspicion (which seems to us well founded) of Government collusion in Karuna's defection, moreover, has deepened the Tigers' distrust of GSL motives and furnished them yet another pretext for stalling negotiations. Although the Tigers have stopped raising the Karuna incident as an obstacle to resuming talks, it seems unlikely that they will return to the table until they believe they have eliminated all resistance and re-established control in the East.

WHAT CAN WE DO?

15. (C) How to influence Tiger behavior remains our greatest challenge. Your visit, which follows closely upon a top-level Tiger delegation's visit to Europe and precedes Prabhakaran's much-anticipated annual "Heroes' Day" policy statement on November 26, will provide a prime opportunity to do so. The international community is now speaking with greater clarity and in greater unison to condemn Tiger terror. We understand that the Tiger delegation to Europe heard unprecedentedly tough talk from their hosts about the LTTE's continued violence and inflexible negotiating stance. Your public statements should highlight those themes, underscoring that the U.S. position toward the LTTE will not change as long as LTTE behavior remains unchanged--but also that a genuine change in Tiger behavior can bring a change in our attitude toward them. In addition, you should underscore U.S. support for the Norwegian role as facilitators, which has come under recent attack in the media and from pro-nationalist political sources.

16. (C) Our lack of contact with the LTTE in many ways constrains our ability to try to influence Tiger behavior, although those who do have contact with the Tigers have not been able to influence them either. (Moreover, some of our European colleagues have told us that our refusal to deal with the LTTE--a position which clearly perturbs the LTTE leadership--gives us special leverage over the Tigers.) Other potential avenues include increased military-to-military cooperation--which the LTTE clearly regards as a threat--and a clampdown on the Tigers' foreign funding sources, including the Tamil diaspora in Europe, Canada and the U.S. In your discussions with GSL interlocutors, you may wish to seek their suggestions on how best we might help press the LTTE to modify both its public positions and its behavior.

MAINSTREAM POLITICS:
HIJACKED BY RADICAL NATIONALISTS

17. (C) While the Tigers bear most of the blame for stalling negotiations, mainstream political parties are partially responsible as well. President Kumaratunga's ability to maneuver her way out of the no ISGA/no negotiations box imposed by the Tigers is severely limited by the opposition United National Party (UNP) on one hand and her largest coalition partner, the radical ex-revolutionary JVP, on the other. Although the UNP and Kumaratunga's Sri Lanka Freedom Party (SLFP), as the two largest parties in the country, are closer ideologically and command far broader popular appeal than radical chauvinist movements like the JVP or the pro-Buddhist Jathika Hela Urumaya (JHU), the deep-seated personal enmity between Kumaratunga and UNP leader Ranil Wickremesinghe impedes bipartisan cooperation, including on such critical matters of national interest as the peace process. As a result, comparatively small parties like the JVP and JHU are hijacking the national agenda, dominating the debate over the peace process with hard-line stances against the ISGA and undermining support for resumed negotiations. JVP and JHU appeals to Sinhalese majority fears of a GSL "sell-out" make it increasingly difficult for the President to find a politically feasible position from which to recommence talks. Unfortunately, however, the longer the hiatus becomes the more it looks like the GSL has lost command of the situation--and the greater the opportunity for the JVP and JHU to fill up the vacuum by mobilizing opposition to the peace process. Moreover, the President's inability or unwillingness to rein in the JVP, upon which she depends to maintain her razor-thin majority and increasingly shaky coalition government, feeds UNP accusations that she is more preoccupied with her personal political fortunes than with preserving the peace process begun by the previous UNP government.

18. (C) Some of the UNP criticism is accurate. Since the elections in April, Kumaratunga has done little until recently to bolster popular support for the peace process. Her establishment of a multipartisan National Advisory Council, which met for the first time on October 4, was a promising initial step. UNP leader Wickremesinghe's decision to boycott this inaugural session--a decision that aligned it

with fringe elements like the pro-LTTE Tamil National Alliance and the chauvinist JHU--was regarded by many in the party as a political miscalculation. Future sessions of the Council, which we understand will take place at the politically more palatable working level, could give the UNP a face-saving opportunity to participate at a more junior level, although the UNP leadership still tells us it has no intention of attending. We want to encourage the President to continue such efforts to consolidate support for the peace process while urging the UNP not to squander the good work toward peace begun under its administration by refusing to cooperate now that its rival is in power.

19. (C) In your conversations with the President and UNP leader Wickremesinghe, you should re-emphasize the need to demonstrate greater bipartisan support for the peace process. You should urge the Government to mobilize greater public support for the peace process or risk ceding the initiative to radical elements like the JVP and JHU. With Wickremesinghe you should stress the importance of ensuring that his historical role in initiating the peace process not be diminished by failing to support his successor's continued efforts--and that his obstinacy is costing him political support.

10. (C) On the brighter side, it is important to remember that the peace process continues, even though negotiations remain stalled. Ongoing demining programs, small-scale reconstruction efforts and conflict mitigation activities at the local level are all key parts of this process. As the hiatus between rounds of dialogue lengthens, these activities become more important than ever as a way of giving Sri Lankans of all communities a stake in the outcome of the peace process.

ECONOMIC REFORM

11. (SBU) In your meetings with the Prime Minister and President, you will want to stress the importance of clear policies showing this government's commitment to economic reform in generating economic growth, creating jobs, restoring investor and donor confidence, and promoting stability and peace. Uncertainty depressed the investment climate and slowed economic growth slightly after the elections in April, and indicators now show around 5.5 percent GDP growth for 2004. The service sector continues to drive growth, while the industrial sector holds steady and agriculture struggles. Interest rates have risen, as inflation continues to increase. The rupee has depreciated almost 6 percent since the beginning of the year. Though the depreciation has been good for exports, the corresponding increase in import prices, accompanied by the rise in oil prices has increased the overall trade deficit.

12. (SBU) In general, Kumaratunga's dependence upon the left-wing JVP for her own political survival has slowed progress on economic reform. Her government views the rural, agriculture-dependent poor as a strong base of support and is looking at ways to appease this influential constituency. Thus, although the government pledged to move ahead on economic reform, it has refused to consider privatization opportunities, has increased hiring in the public sector and has maintained subsidies (though oil prices have forced partial price increases at the gas pumps). That said, the GSL has created three new bodies to oversee economic reform--none of which have been operating long enough to determine their effectiveness. The Strategic Enterprise Management Agency (SEMA) is charged with returning 12 key state-owned enterprises, including the electricity board, the petroleum corporation and state banking institutions, to profitability. The National Council on Economic Development includes public and private sector representatives working to identify key needs in their industries and recommendations for making them more competitive and sustainable. We are told that the first round of policy recommendations will be highlighted in the government's budget presentation in November. Finally, a new Government Procurement Agency is charged with overseeing and streamlining large scale Government procurement processes.

Millennium Challenge Account

13. (SBU) Sri Lanka has been slow off the blocks in the race for MCC funds. Despite some early indications that the GSL understood MCC's charge, the Government is only now ready to submit a concept paper, the precursor to a compact proposal. There is also little indication that ideas have been subject to wide consultations, a fundamental requirement of the MCA process. Delays on the MCA front are due to several factors. First, the GSL has rejected the former government's Poverty Reduction Growth Facility (PRGF) program and has held few discussions with the World Bank and IMF

about developing a new plan. Second, the new government feels pressure to develop its own budget (to be submitted to Parliament November 18) to differentiate its policies from those of the former government, particularly with regard to assistance to the agricultural sector. Finally, the new Finance Secretary has dismissed virtually all members of the senior Ministry staff with relevant experience (either as a result of personal or policy differences) and is relying on the highly bureaucratized National Planning office instead. The GSL must begin soon to engage the opposition parties, donor community, business community and domestic and international NGOs to build support for its initiatives or risk being the last out of the MCA gate.

U.S.-Sri Lanka Trade

14. (U) The US is Sri Lanka's dominant trading partner, absorbing roughly 38 percent of Sri Lanka's exports (and 60 percent of its garments) and accounting for USD 1.8 billion per year in sales. US exports to Sri Lanka have declined in recent years, amounting to USD154 million in 2003. These numbers do not, however, reflect US exports of services, and goods transported through third countries, which we believe to be significant. Sri Lanka has been pushing for a Free Trade Agreement with the US. Current prospects are dim, however, given the electoral season in the US and the lack of progress on economic reforms in Sri Lanka. We continue to look for ways to increase US exports, including the possible use of the Indo-Lanka Free Trade Agreement to import components from the US, add the requisite value in Sri Lanka and then re-export final products, in many cases duty free, to India. Trade and Investment Framework Agreement (TIFA) talks were held in Washington the week of October 25.

MEDIA RELATIONS

15. (U) Sri Lanka has a dominant government-owned media sector, as well as a growing--and increasingly influential--independent media. The majority of Sri Lankans get their news from government-owned television or radio broadcasts, which are relayed in English, Sinhala and Tamil, and can be received throughout the island save for parts of the north. The government media are horrendous in their obeisance to the rulers, and, across the board, unprofessional reporting can be a problem. The peace process remains the focus of the media. You should expect questions to revolve around the U.S.' listing of the LTTE as a Foreign Terrorist Organization and around prospects for increased military and development assistance. Given the timing of your visit, you might also receive queries on how the outcome of the U.S. elections may affect U.S. foreign policy, both worldwide and specifically relating to Sri Lanka. You may also expect questions about U.S. involvement in South Asia and our bilateral relations with India.

USAID PROGRAMS

16. (U) For FY 2005 the administration has proposed USD 18.8 million in funding for USAID programs supporting Democracy and Governance (USD 5 million); Economic Development (USD 9.7 million); Humanitarian Assistance (USD 1.4 million); and, through the Office of Transition Initiatives (OTI), USD 2.7 million for activities supporting the peace process. OTI projects aim to demonstrate the tangible benefits of peace; increase the exchange of balanced, accurate information on peace issues; and to promote community-level conflict management and peaceful co-existence. OTI-funded programs are currently operating in the North, the South and the ethnically diverse East. Democracy and Governance program activities targeted at supporting the peace process include creation of a multipartisan dialogue, facilitated by foreign experts with direct experience in other peace processes, between politicians in the predominantly Sinhalese south and pro-LTTE Tamil parliamentarians; political party strengthening at the local and provincial levels; and community-level alternative dispute resolution.

MILITARY-TO-MILITARY RELATIONSHIP

17. (C) Sri Lanka's roughly 150,000-man military is attempting to develop enough combat power to defeat the LTTE if the cease-fire fails--a capability the military now lacks. In March 2002, all three services of the Sri Lankan military approached the US Embassy with significant requests for military sales. The findings of three separate Department of Defense Assessment teams in 2002 revealed systemic and operational weaknesses, especially shortcomings in doctrine, mid-level leadership and training, as well as severe

equipment shortfalls in four areas (maritime surveillance and interdiction; battlefield intelligence and surveillance; military communications and mobility; and basic soldier items). The DoD teams, recommendations have helped focus our military engagement and assistance, and continue to serve as guideposts for engagement. The military faces additional burdens--poor recruitment and retention, lack of training and operational resources, as well as a continuously decreasing budget. Sri Lanka began receiving FMF in FY2004 and receives, in an expanding program, funding for International Military Education and Training (IMET). Sri Lanka is eligible to receive Excess Defense Articles (EDA) and recently took ownership of the ex-US Coast Guard Cutter "Courageous," scheduled to arrive in Sri Lanka in early 2005. The Sri Lanka Air Force continues to seek four C-130 aircraft under the EDA program. However, no aircraft are available for the foreseeable future.

18. (C) Engagement with the Sri Lankan military has offered unlimited access to the experiences (positive and negative) and lessons learned by all three services during nearly twenty years of fighting the world's most prolific users of suicide technology and IEDs. Recent exchanges and exercises held in Sri Lanka have resulted in information that will directly improve the survivability of US forces serving in harm's way. Our military-to-military relationship, moreover, sends a direct message to the Tigers that they should not go back to war--and that if they do, they will face a more capable Sri Lankan military.

SECURITY SITUATION

19. (SBU) In your conversations with the Prime Minister and President, you may wish to express appreciation for the GSL's consistent responsiveness to our periodic requests for increased security. In spite of the ceasefire, the LTTE remains a deadly terrorist organization, continuing a campaign of assassinations against scores of political rivals and informants. Most of the LTTE's violence is directed against Tamil or Muslim opponents, and there is no recent reliable information of Americans being specifically targeted by the LTTE. That said, the Tigers' terror techniques, including their mastery of the most sophisticated suicide bombing technology in the world, continue to pose a significant threat. In July the LTTE sent a suicide bomber to assassinate a Tamil political rival just one block from the embassy. Although the assassination attempt was unsuccessful, the bomber detonated herself in a nearby police station, killing herself and four police officers. In October, Post received uncorroborated information that the LTTE might attempt to identify/target suspected American intelligence officers in Sri Lanka for assassination. This information continues to be investigated.

LUNSTEAD